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PRECAMBRIAN SHIELD RESOURCES LIMITED

1981

Annual Report

DIRECTORS

Earl E. Curry
Chairman of the Board,
Precambrian Shield
Resources Limited

George R. D. Goulet
Partner, McLaws & Company

R. Ian Kerr
Vice-President,
W.E.P. Investments Limited

Paul F. Little
Vice-President,
Corporate Finance
and Development,
Union Gas Limited

Howard R. Lowe
Petroleum Engineer
and Geologist

Stewart D. McGregor
Vice-President,
Corporate Affairs,
Numac Oil & Gas Ltd.

W. Darcy McKeough
President and Chief
Executive Officer,
Union Gas Limited

Theodore H. Renner
President and Chief
Executive Officer,
Precambrian Shield
Resources Limited

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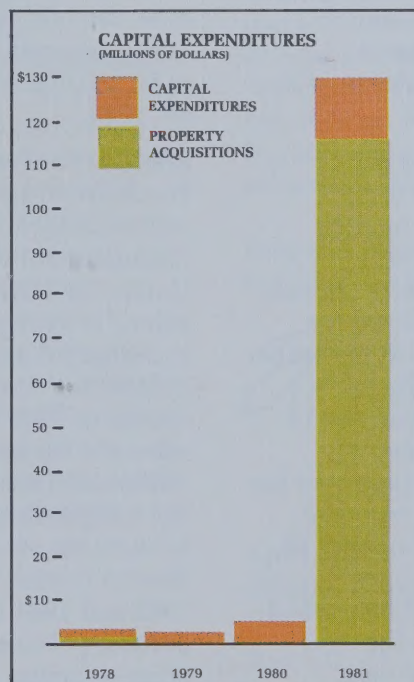
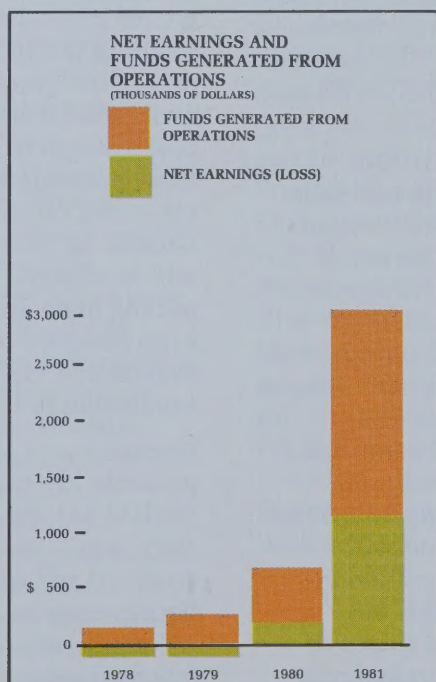
ANNUAL MEETING

The Annual Meeting of the Shareholders of Precambrian Shield Resources Limited will be held on the 13th day of May, 1982 at 10:00 a.m. in the Lakeview Room, Westin Inn (formerly Calgary Inn), Calgary, Alberta.

COMPANY PROFILE

Precambrian Shield Resources Limited was originally incorporated as a private minerals exploration company in 1966. Since that time Precambrian has evolved into a company exploring for petroleum, coal, and precious minerals throughout western North America. Oil and gas exploration and production is conducted through fully staffed offices in Calgary and Houston. Exploration for gold originates with an associated company, Precambrian Exploration, Inc. with offices in Denver, Colorado. The Company is engaged in thermal coal exploration and experimental mining at Lethbridge, Alberta. Precambrian is a Canadian company whose common shares are listed for trading on The Toronto Stock Exchange. Union Gas Limited of Chatham, Ontario is Precambrian's largest shareholder, controlling approximately 61% of the Company's shares at the end of 1981.

	Thirteen Months Ended December 31, 1981	Twelve Months Ended November 30, 1980
FINANCIAL		
Gross Revenue	\$ 5,541,000	\$ 1,159,000
Oil and Gas Production Revenues	2,392,000	442,000
Net Earnings before Extraordinary Item	1,171,000	220,000
Funds Generated from Operations	3,077,000	683,000
Working Capital	6,256,000	2,186,000
Property, Plant and Equipment	138,283,000	11,173,000
Long-term Debt	15,000,000	—
Shareholders' Equity	\$128,717,000	\$13,444,000
OPERATIONS		
Land Holdings		
Gross Acres	2,405,000	2,624,000
Net Acres	409,000	93,000
DRILLING ACTIVITY		
Gas Wells	48	25
Oil Wells	43	3
Dry and Abandoned	55	12
	<u>146</u>	<u>40</u>
RESERVES — PROVEN AND PROBABLE		
Gas (MMcf.)	241,000	56,000
Oil and Natural Gas Liquids (Barrels)	6,717,000	996,000



TO THE SHAREHOLDERS



Earl E. Curry, Chairman of the Board and Theodore H. Renner, President and Chief Executive Officer.

The past year was one in which fundamental changes were made by various governments regarding Canadian energy policy. It was also a year in which your Company made substantial progress in building a sound financial and asset base for future growth, as is evident in the following discussion.

Revenues from oil and gas production increased to \$2,392,000 for the 13 months ended December 31, 1981 which represents a 441% increase over the \$442,000 realized for the previous year ended November 30, 1980. Precambrian's net income of \$1,171,000 for the 13 months ended December 31, 1981 was a 432% increase over the \$220,000 net income reported for the year ended November 30, 1980. Cash flow from operations was \$3,077,000, which is a 351% increase on the \$683,000 reported last year.

Capital expenditures totalled \$127,593,000 and included \$114,000,000 utilized in the purchase of the resource properties of Union Gas Limited. The Company's working capital stood at \$6,256,000 on December 31, 1981 compared to working capital of \$2,186,000 as at November 30, 1980.

Effective November 1, 1981 Precambrian agreed to purchase substantially all of the Western Canada resource properties of Union Gas Limited which were valued at \$114 million, in exchange for approximately 14.9 million Precambrian common shares. In 1982 Union will subscribe for an additional \$23.5 million of treasury common stock at prices ranging from \$7.65 to \$8.50 per share, and will direct a further \$45 million in 1983 and 1984 towards the purchase of common shares or other securities of Precambrian.

At the end of 1981, Union Gas Limited owned approximately 61% of the issued and outstanding shares of your Company.

Late in 1981, Precambrian completed an arrangement which will provide your Company with broad exposure to gold exploration for disseminated open-pit orebodies, principally in the state of Nevada. A Nevada corporation, Precambrian Exploration, Inc. has been formed which will be managed by Dr. Michael B. Mehrstens of Denver, Colorado and a staff of three geologists. This corporate development reflects our confidence in the long-term profit potential associated with open-pit gold production in the United States.

In 1981, Precambrian secured its initial position in the Canadian coal industry through the purchase from Union Gas Limited of 43,500 gross acres of thermal coal holdings in the Lethbridge area of Alberta. Your Company has established a small experienced coal division to more fully exploit these holdings and to pursue other coal opportunities in Western Canada. In 1982, this group will be engaged in experimental mining in an existing shaft at Kipp designed to determine the commercial viability of coal production in this area.

Precambrian's proven and probable natural gas reserves totalled 241 Bcf. at the end of 1981, while proven and probable crude oil and natural gas liquids reserves increased to 6.7 million barrels. Included in this total are 2.6 million barrels of

crude oil and liquids reserves which will qualify for New Oil Reference Prices as described in the Canadian Government's National Energy Policy. Ongoing development of 1981 oil discoveries together with a continued emphasis on oil exploration should result in further sizeable additions to "new oil" reserves in 1982.

The combined drilling activity of Precambrian together with wells which Union drilled in which Precambrian also had an interest, resulted in 48 oil wells, 43 gas wells and 55 dry holes. In 1982 we expect to continue this active pace by participating in the drilling of at least 130 wells in Canada and the United States.

In Canada the introduction of the National Energy Policy in October, 1980 together with pricing agreements in 1981 have resulted in the unprecedented involvement by governments in the energy industry. Since the various government agreements on petroleum pricing were concluded, international oil prices have experienced downward pressure, and the industry is still burdened with substantial surpluses of gas. This natural gas surplus capacity will only be removed with a large expansion of export gas sales. The problems just cited have been created by governments and can only be resolved by governments. A solution should include a reduction in royalties paid to provincial governments, a lower level of Federal Government taxation of the industry and the active encouragement of new

gas export markets by both levels of government.

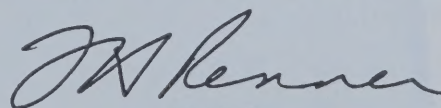
In spite of the uncertainties created by various government energy policies, your Company has managed to make meaningful progress. During 1981, the Company has been successful in finding new oil reserves, a search which will continue in 1982. Precambrian's Canadian Ownership Rating (COR) is estimated to be in excess of 85% and therefore will qualify for maximum PIP grants once the governments involved begin refunding these grants to industry. We view the Company's intermediate term prospects with guarded optimism, provided that measures will be taken to improve industry profitability in Canada.

During the year, Precambrian has expanded its professional staff in both Canada and the United States. In Canada, Mr. A. Rynsburger joined the Company as Vice-President and General Manager of Precambrian's Canadian oil and gas activities, and Mr. J.H.H. Chamberlin joined Precambrian as Vice-President, Coal. In the United States, Mr. C. P. Bragg joined our United States subsidiary as Senior Vice-President and General Manager. Shield Resources Inc. has also attracted to the Company Mr. A. Owings as Vice-President, Engineering and Operations, and Mr. R. Doan in a senior level exploration and geophysical capacity.

With the closing of the purchase of resource assets from Union Gas Limited, Mr. W. Darcy McKeough, President and Chief Executive Officer of Union Gas Limited, and Mr. Paul F. Little, Vice-President Finance and Corporate Development of Union Gas Limited were appointed to the Company's Board of Directors. During the year, Mr. Walter E. Clarke resigned as a director of your Company to facilitate an Alberta Corporations Act requirement that at least half of the Company directors be Alberta residents. Mr. Clarke will continue to provide advice and support to the Company as a mining consultant. Mr. Clarke's contribution to Board meetings will be missed.

The considerable effort and dedication of the Company's employees provided the basis for the success of the past year. We wish to express our sincere thanks to them for their enthusiastic efforts. The continued interest and support of Precambrian by its shareholders is gratifying and is necessary to achieve our plans for the future.

Respectfully submitted on
Behalf of the Board.

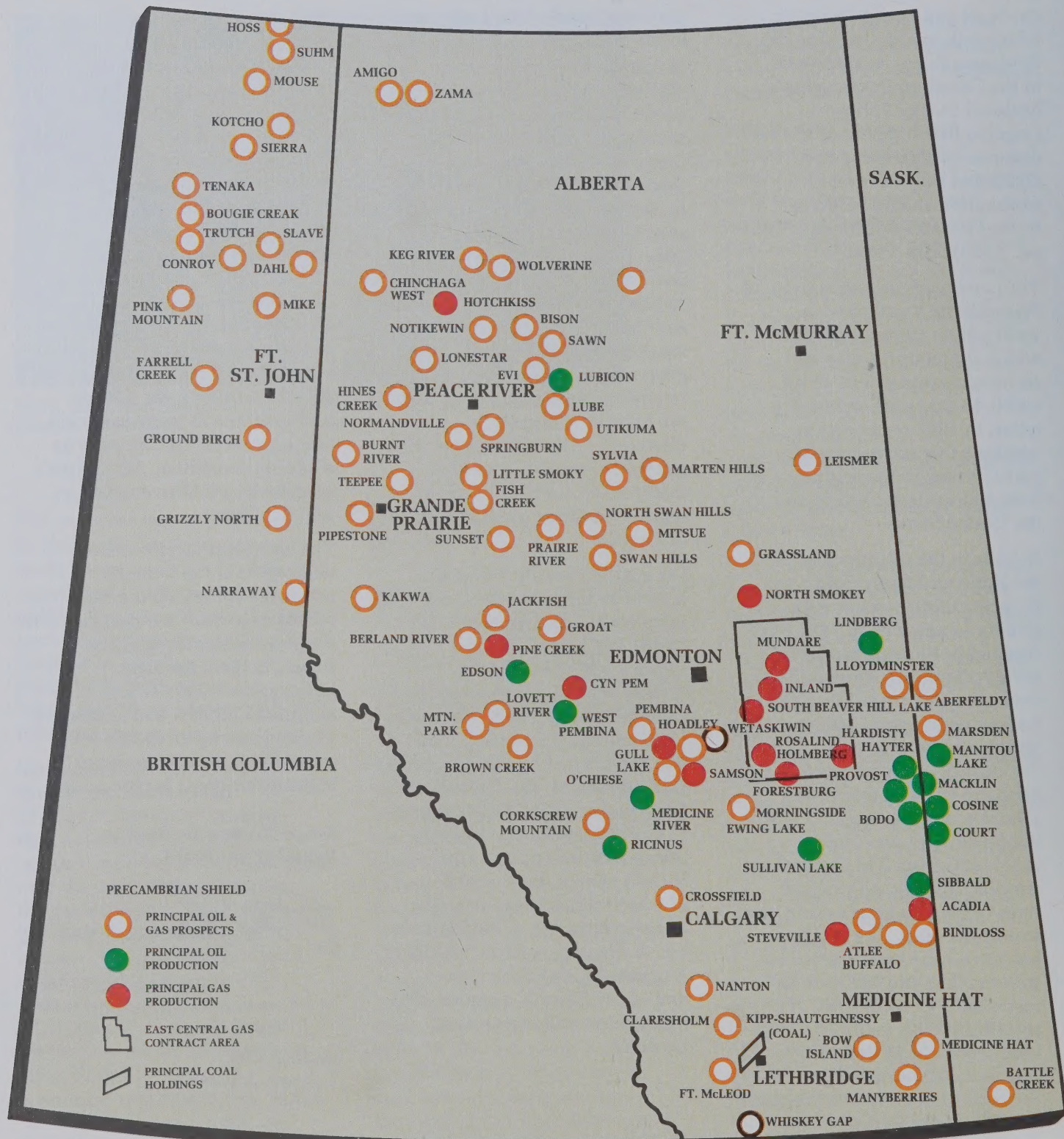


T. H. Renner
President and Chief
Executive Officer

April 2, 1982
Calgary, Alberta

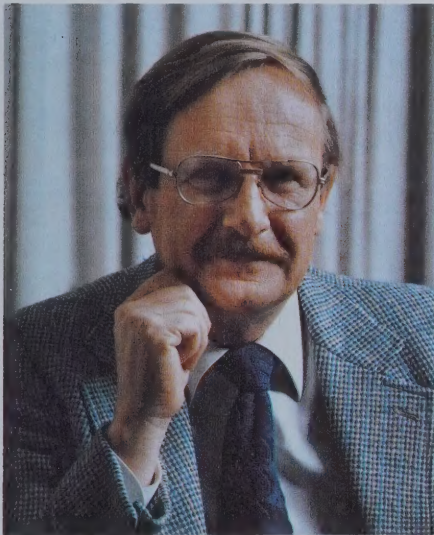
CANADA

AREAS OF ACTIVITY



EXPLORATION

OIL AND GAS — CANADA



Andre Rynsburger, Vice-President and General Manager — Canadian Oil and Gas

Your Company holds a large and well located acreage position in the western Canadian basin on which a successful drilling program resulted in new oil discoveries in the Edson, Pembina, Lloydminster and Sullivan Lake areas. Successful development of earlier oil discoveries took place in the Rat Creek-West Pembina, Ricinus and Lubicon areas. Drilling for heavy oil, primarily in Alberta, has added 40 oil wells.

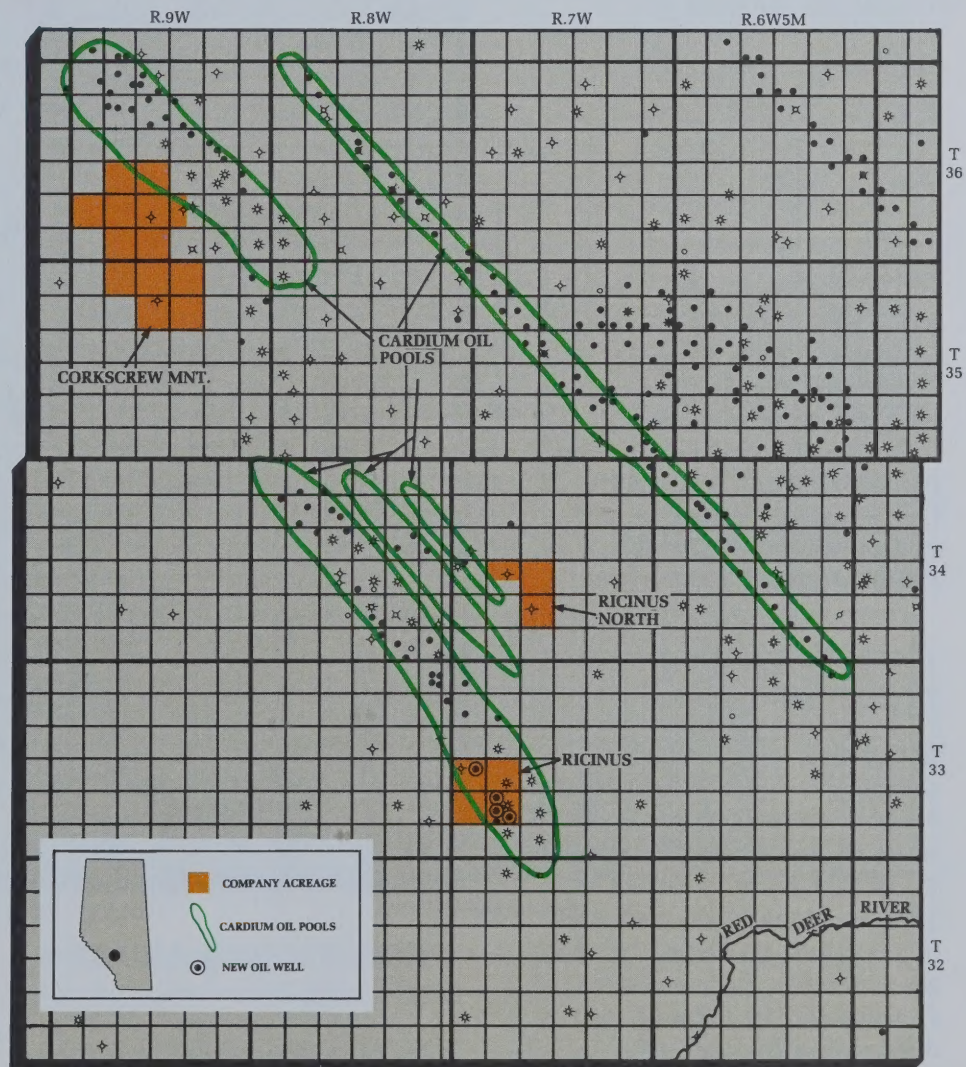
Twenty-two gas wells were drilled in the east central Alberta "gas contract" area. The majority of 18 other gas well completions drilled during 1981 in Canada are in areas presently producing or expected to come on stream during 1982 and 1983.

RICINUS

Four Cardium oil wells have been drilled off-setting the Company's 10-8-33-7 W5M discovery well. The 10-18-33-7 W5M well one mile to the northwest has extended the pool over the leases acquired by the Company in June, 1980. Precambrian has working interests varying from 36.1% to 40% in 2,560 acres. In January,

1982, we were successful in acquiring an 18.2% working interest in an additional 1,600 acres located in Twp. 34-7 W5M. This prospect has similar Cardium oil potential.

Further studies are being carried out to evaluate the oil and gas potential of the 8,000 acre Corkscrew Mountain license in which a 36.3% working interest is held.



RICINUS AREA

EASTERN ALBERTA "GAS CONTRACT" AREA

The Company's acreage in this area totalling 116,000 gross acres (15,000 net acres) is dedicated to an area gas contract with TransCanada PipeLines Limited. During 1981, a drilling program of 36 wells was carried out, which resulted in 22 gas wells and 14 dry holes. The Company's share of production from this area is expected to increase to a level of 2.4 MMcf/d by the end of 1982, producing through 6 gas plants located in Holden, Warwick, Holmberg, Lavoy, Forestburg and Hardisty.

EDSON

In the Edson area, the Company has an average 16% interest in 3,200 acres. The 7-22-54-18 W5M well was completed as a Cardium oil producer. This well has extended the productive Cardium trend through this acreage where additional drilling is scheduled for 1982.

PINE CREEK AND JACKFISH

In this area, which is mainly prospective for gas, the Company holds interests ranging from 3.3% to 19.3% in a large land spread. Six wells have been drilled in 1981, resulting in one potential oil well, four gas wells, and one abandonment. Early in 1982, Precambrian participated in drilling 3 additional wells which were cased as potential gas producers.



EDSON - PINE CREEK AREA

WEST PEMBINA AND ETA LAKE AREA

In the Eta Lake Gas Contract area, the 13-8-51-11 W5M well (20% interest) was completed as a gas

well capable of flowing 2.7 MMcf/d and was tied in to existing production facilities. Production from this well will allow current maximum gas contract delivery levels to be maintained.

The 16-25-51-11 W5M well in the Cyn Pem area has been completed as a substantial oil producer from the Cardium zone. Precambrian has a 29.9% working interest in this well which was completed with an initial production rate of 1,580 BOPD and is expected to have an allowable production rate in excess of 150 BOPD.

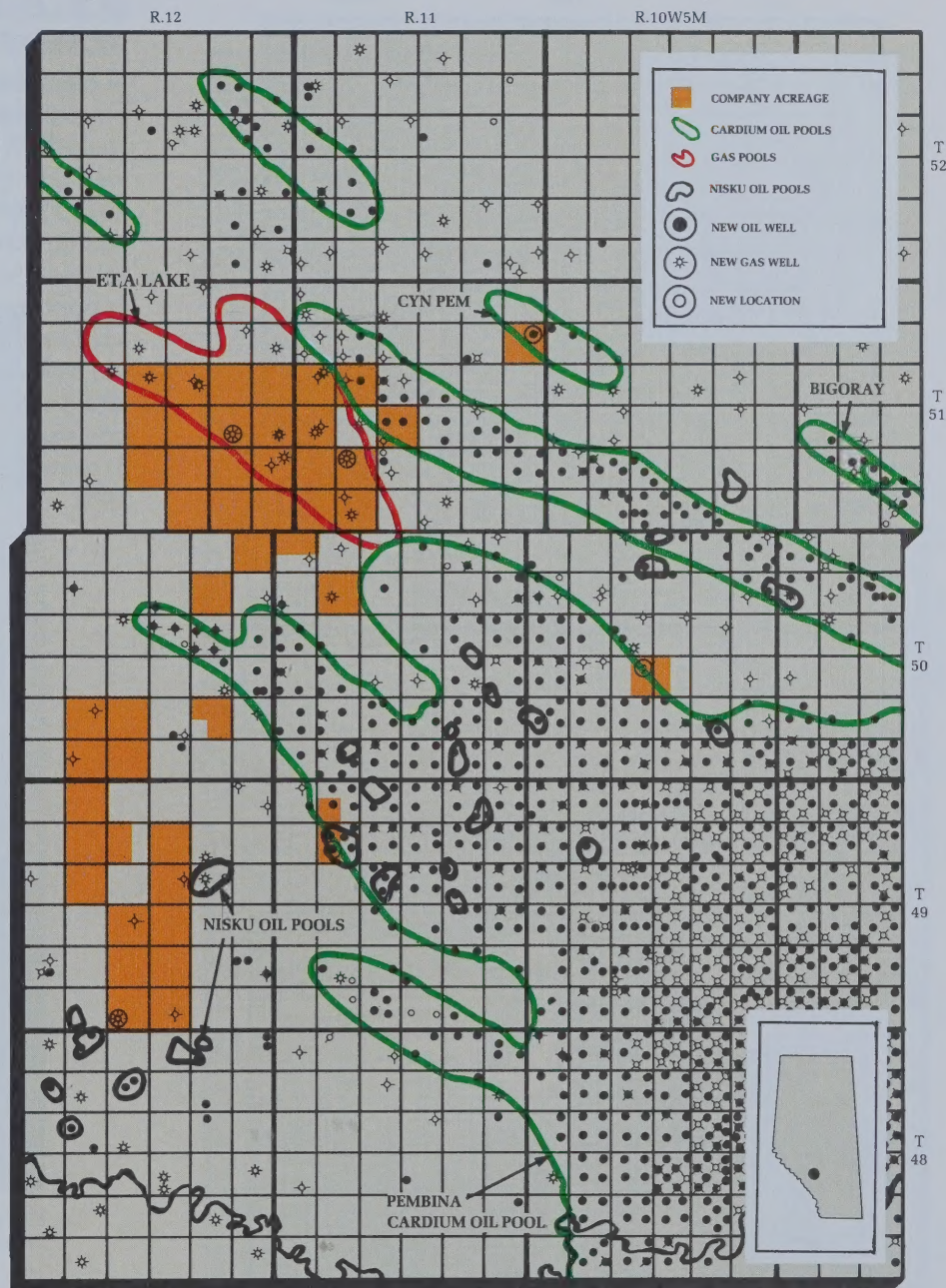
A Nisku reef test in 5-5-49-12 W5M was drilled on the West Pembina block at no cost to the Company. The well failed to encounter hydrocarbons in the Nisku zone and will be completed as a potential gas well in shallower horizons.

The 6-30-49-11 W5M Rat Creek well was drilled as a successful follow up to the Company's 11-30 well in the Nisku "P" oil pool, discovered in 1979. The pool was shut-in at year end pending the installation of an enhanced recovery scheme which is expected to be completed in the second half of 1982. Negotiations for unitization of the pool are underway and the Company expects a unitized working interest in excess of 13% in the pool.

The Company is participating with a 26.5% working interest in a farmin well to test a Nisku reef anomaly at 9-17-50-10 W5M which is presently drilling.

AMIGO

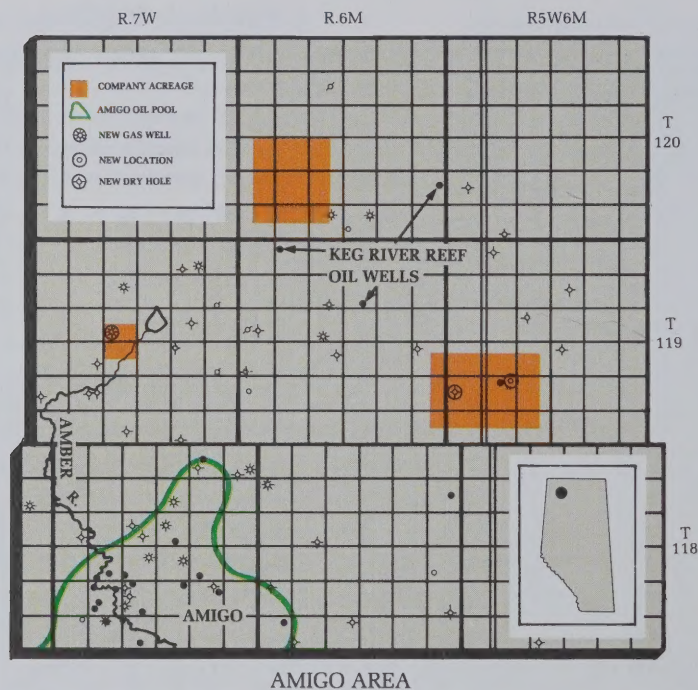
Drilling in this north western Alberta area in 1981 has resulted in one dry hole and one Keg River gas well. The Company has an interest varying between



WEST PEMBINA AREA

5.9% and 13.3% in a total of 7,680 gross acres. Presently, a well in which the Company has a 6.6% interest is drilling a Keg River reef anomaly. Improved seismic interpretation techniques are

expected to assist us in more completely evaluating this area. The acreage is in a geologically favourable location relative to previous Keg River reef oil discoveries.

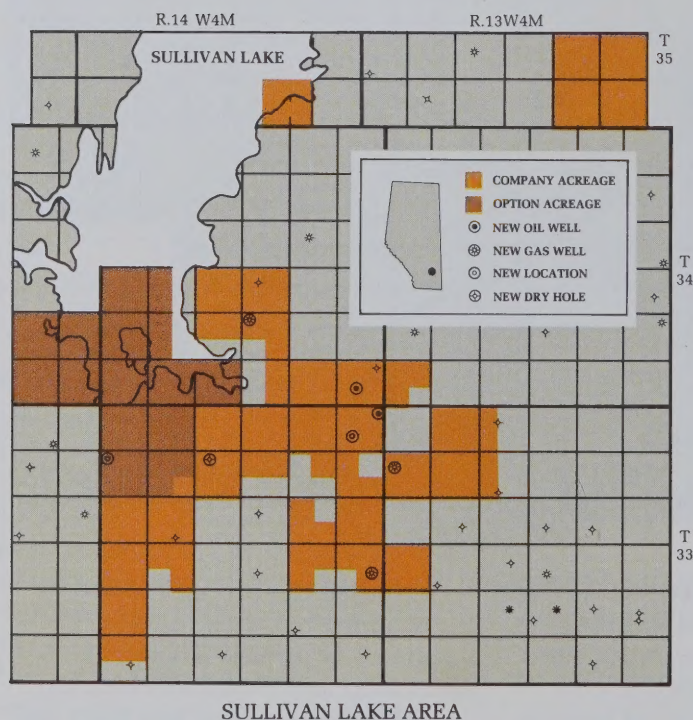


SULLIVAN LAKE — EASTERN ALBERTA

In September, 1981, the Company participated in the drilling of a discovery oil well located in 16-36-33-14 W4M. This incentive exploration well will qualify for royalty free production for a 5 year period. Through land acquisitions and farmins, the Company has obtained interests varying between 16.7% and 50% in approximately 27,000 gross acres. Four additional wells have been drilled in this area in the early part of 1982, resulting in one additional potential oil well, two gas wells and one abandonment. Several more wells are expected to be drilled during the remainder of 1982.



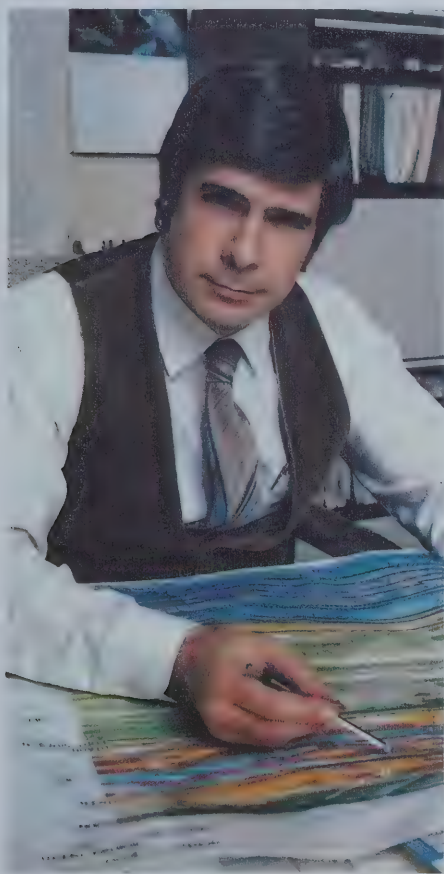
Lynn W. Lebbert, Vice-President, Land and Assistant Secretary — Canadian Oil and Gas



HEAVY OIL AREA — ALBERTA

Extensive exploration and development drilling has been carried out on Company interest lands in the Lloydminster heavy oil area of Alberta. In the Bodo, Provost and Hayter areas, located south of Lloydminster, 46 wells were drilled resulting in 30 oil wells, 4 gas wells and 12 abandonments where the

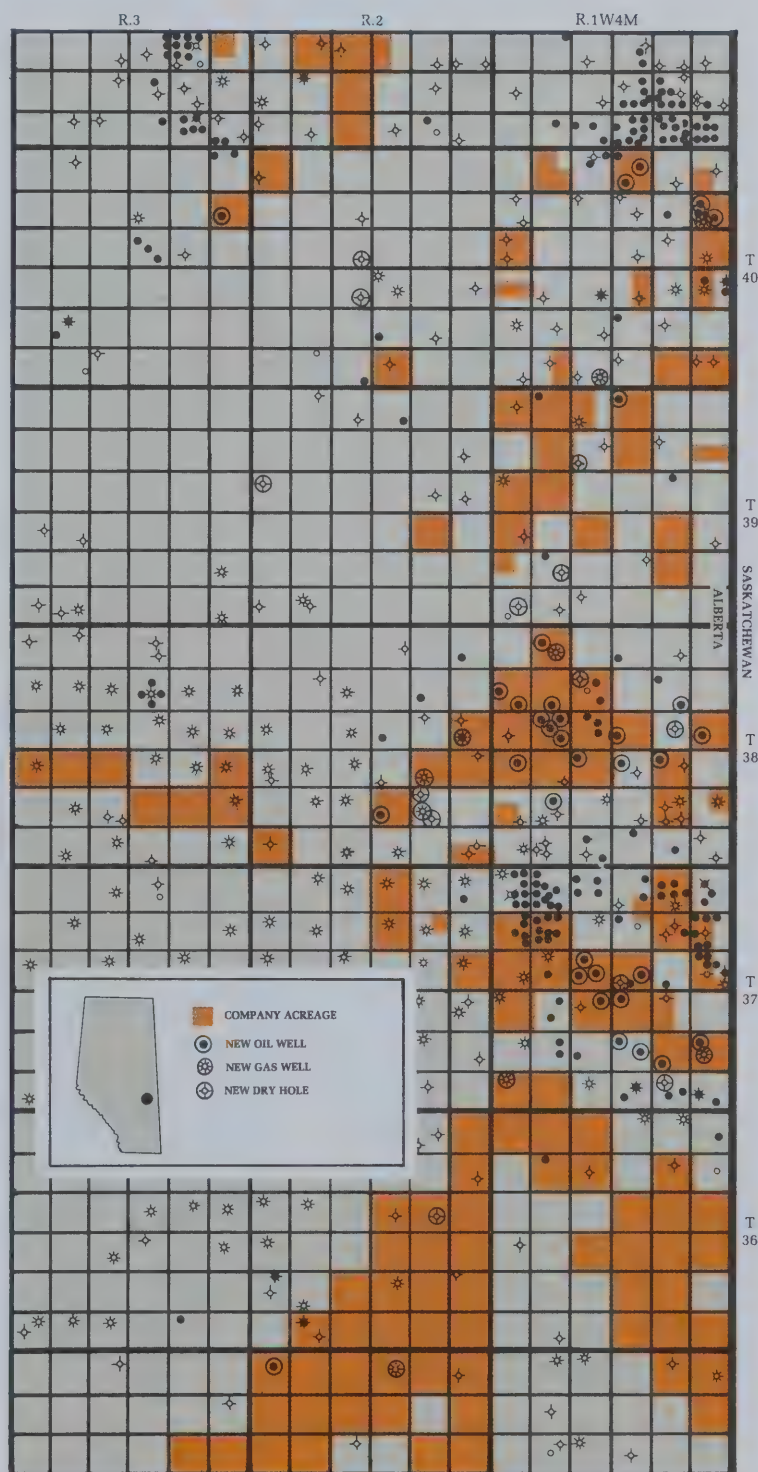
Company's working interests range from 3.6% to 29%. Three oil wells in which the Company has a 40% working interest, were drilled in the Lindbergh area, which is situated halfway between Lloydminster and Cold Lake. High levels of exploration and development activity will be continued on these extensive land holdings which have excellent heavy oil potential.



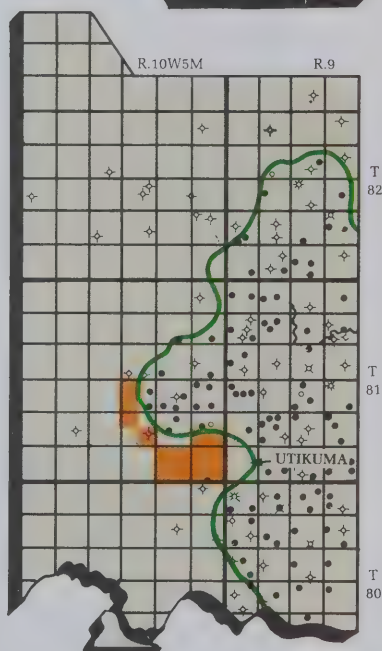
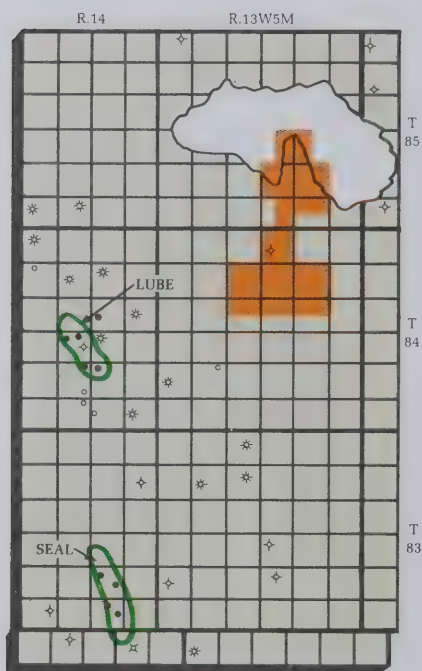
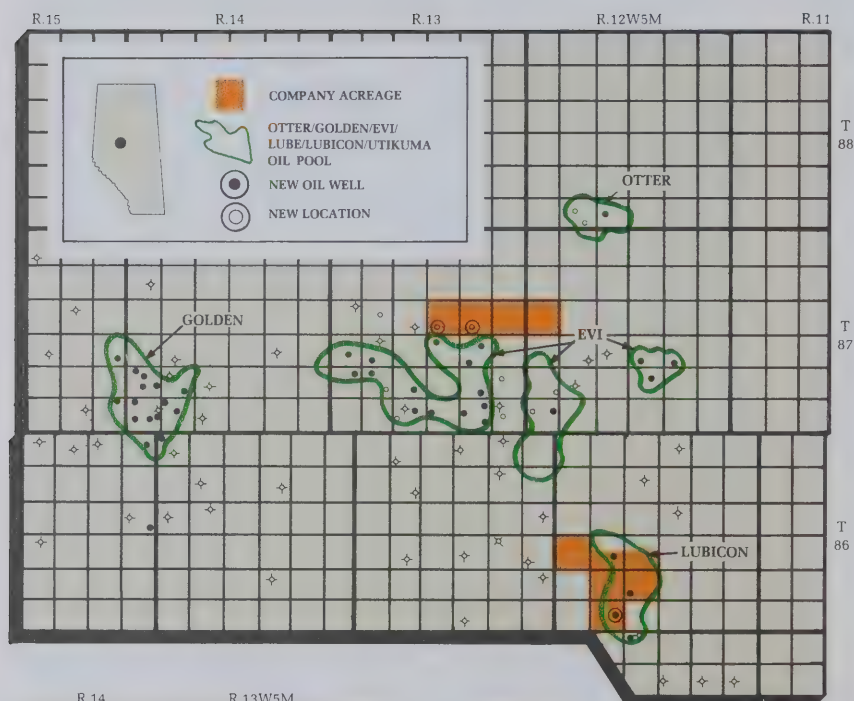
Ken Thrasher, Manager, Geophysics —
Canadian Oil and Gas

UTIKUMA

At a recent land sale, the Company acquired an 18.2% interest in 5 leases (2,240 acres) located on the west side of the Utikuma oil field. Extensive seismic work is in progress and drilling is expected to commence in the summer of 1982 for Keg River and Gilwood oil objectives.



BODO - PROVOST - HAYTER AREA



UTIKUMA - EVI - LUBICON AREA

EVI — LUBICON — LUBE

The 8-5-86-12 W5M well on the 4,000 acre Lubicon block (7.1% interest) was cased as a potential oil well in 1981 and two wells drilled in 1980 were placed on production in 1981 as Slave Point oil wells.

At Evi where Precambrian has a 13.2% interest in 2,560 acres, initial drilling has been disappointing. Drilling results did however indicate that the right conditions for oil trapping do exist. An extensive seismic program is underway to further define the oil potential of this prospect.

The Company holds a 16.7% working interest in 6,080 acres at Lube. This acreage is in a geologically favourable environment for Slave Point and Granite Wash oil which may be confirmed by a seismic program to be completed later this year.

N.E. BRITISH COLUMBIA

The Company's drilling activities in this Province were restricted to participating in 4 wells. In the Trutch area, 2 wells were drilled resulting in 1 well being cased for gas (18% interest) and 1 dry hole (11.4% interest). A well drilled in the Mike area (5.8% interest), was cased for oil. In the Tenaka area, a well in which the Company has a 7.5% interest was cased for gas.

SASKATCHEWAN

Saskatchewan activities were limited to participation in drilling on the Company's extensive land holdings in heavy oil prone areas. A total of 10 wells were drilled with working interests ranging from 10.3% to 30%. Seven wells were completed as oil wells and 3 wells were abandoned.

EXPLORATION

OIL AND GAS — UNITED STATES



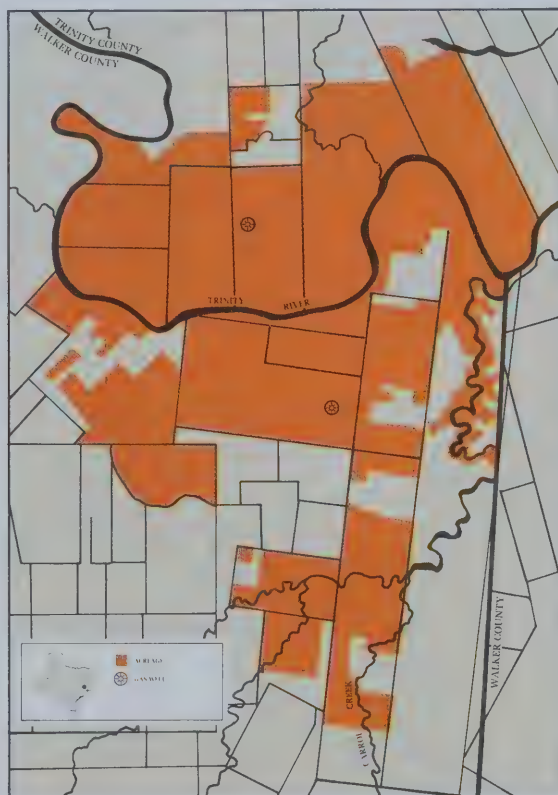
C. P. Bragg, Senior Vice-President and General Manager — U.S. Oil and Gas

Your Company's United States subsidiary, Shield Resources Inc. made satisfactory progress in its 1981 start-up year. Shield continues to pursue a strategy of internally generating exploration plays utilizing Houston based professional staff. At the end of our five year planning horizon it is our objective to have Shield's exploration program largely self-generated and to have Shield self-finance substantially all of its exploration activities.

At the end of 1981, Shield's capital expenditures rose to almost \$12 million (U.S.) of which \$8 million (U.S.) was supplied by joint venture exploration partners and \$4 million (U.S.) originated with Precambrian. Numac Oil & Gas Ltd. contributed \$4 million (U.S.) to our program in 1981, and will make a similar commitment in 1982. In 1982, Precambrian will contribute approximately \$5.5 million (U.S.) to Shield's exploration program, and joint venture partners other than Numac will contribute an additional \$2.5 million (U.S.).

Shield and its joint venture partners have concluded an arrangement with a Houston based oil and gas company whereby that company will provide \$1.5 million (U.S.) towards the acquisition of geophysical data to generate future

prospects. Shield and its joint venture partners will contribute \$0.5 million (U.S.) to this geophysical exploration program and any prospects identified will be equally shared by Shield et al and this Houston based oil and gas company.



RIVERSIDE AREA

RIVERSIDE PROSPECT — WALKER COUNTY, TEXAS

In early 1981, Shield participated in the drilling of the Gibbs Bros. No 1 well which was a Georgetown gas discovery. Shield has an 18.8% working interest in this well and the surrounding 1,100 acres. Flow tests of the Georgetown formation resulted in a calculated

Absolute Open Flow (AOF) of 104 MMcf/d. Log analysis of the Woodbine formation in this well suggests that it has good potential for gas production but remains untested at this time. Since the discovery well was drilled, Shield has secured rights to more than 6,000 additional acres of offsetting lands, primarily through farmin arrangements, with working interests ranging from



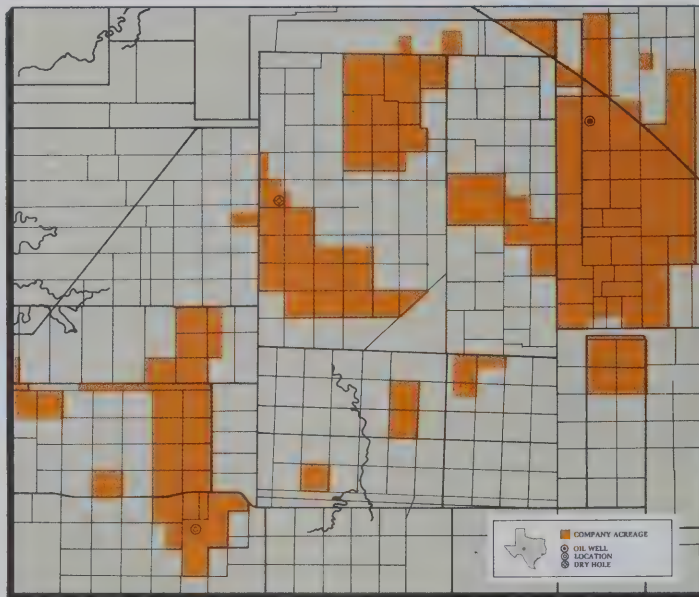
Al Owings, Vice President, Engineering and Operations — U.S. Oil and Gas

12% to 19%. An exploratory test of these farmin lands located 2 miles north west of the discovery well has been drilled and cased, and both the Woodbine and Georgetown formations will be tested through perforations in this well.

Shield has concluded gas contract negotiations which will allow the discovery well to be put on stream at initial rates of between 3 to 5 MMcf/d starting in the third quarter of 1982.

CLAY COUNTY PROSPECT — CLAY COUNTY, TEXAS

To date Shield has participated (with a 9.4% working interest) in the drilling of 2 wells, with the oil bearing Mississippian formations as their objective. The first well drilled was dry, followed by a successful second test which appears capable of producing 50 to 100 BOPD. The pool penetrated by this discovery well is being further delineated by seismic surveys and once this data is interpreted a step-out well will be drilled.



CLAY COUNTY AREA

To date the total land position has been increased to 20,000 gross acres in which Shield has a 9.4% working interest and where at least 10 additional seismic anomalies remain to be drilled.

In **California**, Shield has an approximate 5% working interest in a gas discovery which has been production tested at rates of 3 MMcf/d.

In **Live Oak County, Texas**, Shield has approximately a 5% working interest in a gas discovery in the Queen City formation. Production performance to date has been disappointing and additional drilling has been deferred pending a review of production data.

In **Matagorda County, Texas**, Shield's initial Miocene exploratory test was dry and abandoned. This block of almost 11,000 acres remains

prospective in the Miocene and the deep Frio Sands. The Company's working interest in the block is 16.4%. The costs of a 17,000 foot Frio test are beyond the level of exposure which Shield is prepared to make to any single prospect and hence Shield is pursuing a seismic option-farmout arrangement with a third party.



Ray Doan, Manager, Geophysics — U.S. Oil and Gas

LAND RESERVES

LAND

The Company's net exploratory land position increased markedly over levels reported a year ago. This increase is primarily attributable to acquisition of exploratory lands from Union Gas Limited.

Petroleum and Natural Gas Land Holdings		
	As at Dec. 31, 1981	As at Nov. 30, 1980
Canada		
Gross acres	2,328,000	2,611,000
Net acres ..	396,000	90,000
United States		
Gross acres	77,000	13,000
Net acres ..	13,000	3,000

Precambrian will continue to be active in acquiring exploratory acreage in both Canada and the United States in 1982.

RESERVES

Precambrian follows a policy of retaining an independent petroleum engineering firm to assess its reserves every second year. The reserves tabulated as at December 31, 1980 are as estimated by Sproule Associates, an independent engineering company specializing in oil and gas evaluations. The reserves shown as at December 31, 1981 are those estimated by Precambrian's engineering and geological staff. Precambrian plans to retain Sproule to provide estimates of the Company's reserves as at December 31, 1982.

Company Share of Reserves Before Provision for Royalties

	Crude Oil and Natural Gas Liquids		Natural Gas	
	As At Dec. 31, 1981 (BBLS)	As At Dec. 31, 1980 (BBLS)	As At Dec. 31, 1981 (MMcf.)	As At Dec. 31, 1980 (MMcf.)
Proven	5,050,000	605,000	181,000	37,000
Probable ..	1,667,000	391,000	60,000	19,000
	6,717,000	996,000	241,000	56,000

The following definitions form the basis of Sproule's classification of reserves and values presented in their report, as of December 31, 1980.

"Proven Reserves" are defined as the quantities of crude oil, natural gas and natural gas by-products, which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable at commercial rates in the future from known oil and gas reservoirs under presently anticipated economic and operating conditions.

"Probable Reserves" are considered to be those reserves commercially recoverable as a result of the beneficial effects which may be derived from the future institution of some form of pressure maintenance or other enhanced recovery method, or as a result of a more favourable performance of the existing recovery mechanism than that which would be deemed proven at the present time, or those reserves which may reasonably be assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves.

The Company's engineering and geological staff has utilized these classifications in their assessment of reserves as of December 31, 1981.

Included in the crude oil and liquids reserves as at December 31, 1981 are 2,600,000 BBLS of proven and probable reserves which will qualify for New Oil Reference Prices. The Company has an interest in a Nisku Reef discovery in which wells were drilled in 1980 and 1981, and a miscible flood recovery proposal for this pool has been tabled with the Alberta Energy Resources Conservation Board. The reserves attributable to the well drilled in 1981 together with

incremental reserves attributable to the miscible flood recovery project will both qualify for new oil prices. Precambrian's 1981 discoveries at West Pembina (Cardium), Edson (Cardium), Ricinus (Cardium), Sullivan Lake (Lower Cretaceous) and Lloydminster Heavy Oil region (Lower Cretaceous) will all qualify for new oil prices. Further drilling and development of these properties will continue in 1982.

DRILLING ACTIVITY

The drilling results achieved in the past year incorporate drilling by Union Gas Limited and by Precambrian in both Canada and the United States.

	<u>13 Months Ended December 31, 1981</u>	<u>12 Months Ended November 30, 1980</u>
Gas	<u>48</u>	25
Oil	<u>43</u>	3
Dry and Abandoned	<u>55</u>	<u>12</u>
	<u>146</u>	<u>40</u>

Due mainly to the acquisition of the Union Gas Limited's resource properties, the Company now has varying interests in a large number of oil and gas wells as summarized in the following tabulation.

	<u>Oil</u>	<u>Gas</u>	<u>Total</u>
Associated with production operations	178	79	257
Shut-in	<u>72</u>	<u>222</u>	<u>294</u>
	<u>250</u>	<u>301</u>	<u>551</u>

The shut-in oil wells are primarily heavy oil wells which are either awaiting connection or will be included in tertiary recovery pilot operations. The shut-in gas wells reflect the industry surplus of natural gas in relation to current market demand.



Peter B. Boulanger, Vice President,
Engineering and Operations — Canadian
Oil and Gas

REAL ESTATE

BELLANCA DEVELOPMENTS LTD.

Bellanca Developments Ltd. is a commercial real estate developer whose interests are confined to the City of Yellowknife, capital of the Northwest Territories. Precambrian holds a 21.6% equity interest in this Company.

Bellanca has developed a total of 177,268 square feet of net rentable space which is contained in three buildings:

- * The "Precambrian Building"
— a combined 11 storey office tower and 700 seat twin cinema complex.
- * The "Bellanca Building"
— a 10 storey office building.
- * "Scotia Centre"
— 3 levels of retail shopping and offices. This complex is designed and structured to add a 9 storey office tower when the demand for additional space develops in Yellowknife.

All of the buildings are 100% leased to an excellent mix of tenants including the Territorial and Federal Governments, banks, major mining companies and local business enterprises.

1981 was a "turn around" year for Bellanca. Gross revenues increased 16.2% to \$3,535,000 from \$3,043,000 and Bellanca is now making a positive contribution to Precambrian's net income.

MINING

GENERAL

Precambrian was originally formed and functioned as a mining exploration organization and continues to maintain an experienced capability in minerals exploration.

In our desire to obtain a presence in the gold business, many factors were examined and a conclusion was reached that the state of Nevada represented the most prospective area. In recent years several large tonnage open-pit gold orebodies have been discovered which are economic at current gold prices. Accordingly, a search was made to locate high quality people with proven expertise and local knowledge in Nevada. The Company is pleased to report that this objective was achieved with the incorporation of Precambrian Exploration, Inc., as described hereunder.

PRECAMBRIAN EXPLORATION, INC. — UNITED STATES

Precambrian Shield Resources Limited has recently concluded an agreement with Mineral Ventures, Inc., (MVI) of Denver, Colorado and the Cargo Partners (CARGO) of Westport, Connecticut. This agreement will provide the Company with broad exposure to exploration for bulk tonnage open-pit gold reserves within the state of Nevada and other selected areas of the western U.S.

To implement the terms of this agreement, a Nevada corporation, Precambrian Exploration, Inc. has been formed to carry out exploration which for the next 3 years will be funded by Precambrian Shield Resources Limited. All assets of MVI—CARGO which include 8 Nevada gold properties have been transferred to this new company.

The technical expertise developed and tested over the past 3 years by MVI-CARGO is expected to give Precambrian Exploration, Inc. the ability to effectively target new gold prospects. The new operating company will be managed by Dr. Michael B. Mehrtens and a staff of 3 geologists with a 1982 budget of \$580,000 (U.S.). At

the conclusion of the 3 year exploration program ending in 1984, the Company will have earned a 50% equity interest in this Denver based minerals exploration company.

Earl E. Curry, Chairman of Precambrian Shield Resources Limited is President of Precambrian Exploration, Inc. and will be working closely with Dr. Mehrtens and his staff in their efforts to build this new associated company into an important segment of your Company's affairs.

CANADA

No work was carried out during the year on the Company's Clan Lake gold property in the Northwest Territories.

The properties adjacent to the Placer Development Ltd. and Essex Minerals Co. lead-zinc deposits in the Howard's Pass area of the Yukon Territory continue to be maintained in good standing.

COAL

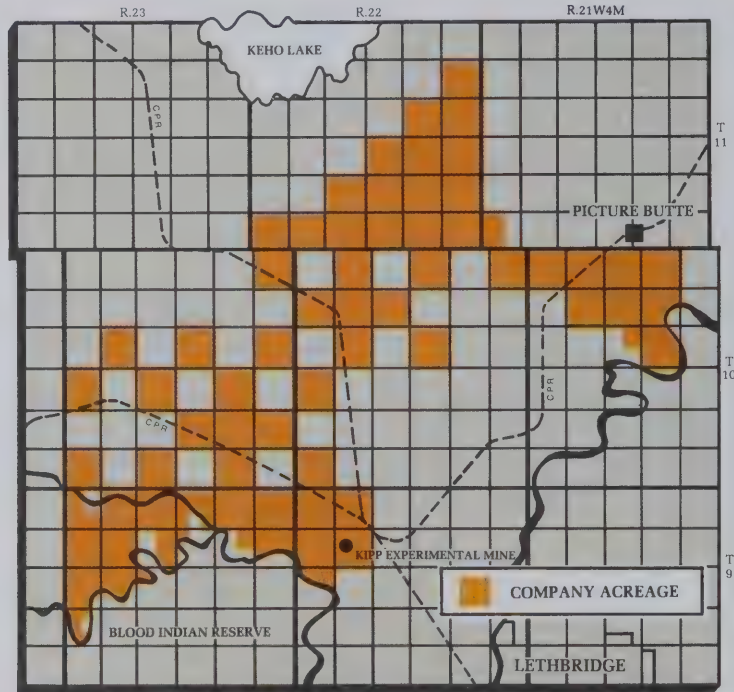
GENERAL

Precambrian owns varying interests in 43,500 acres of coal rights in the Lethbridge Area of southern Alberta. Two principal areas are Picture Butte and Kipp which are underlain by the Galt Seam, a gently dipping seam of thermal coal of mineable thickness. This seam was mined successfully by underground methods in several locations within the Lethbridge area up to the mid sixties. Precambrian retains a 55% working interest in the Picture Butte property and a 20% working interest in the Kipp property.

EXPLORATION

At Kipp, a 4.5 metre concrete lined shaft was completed in 1980 to a depth of 235 metres. Two hundred metres of experimental underground workings, from which bulk coal samples were mined, were completed early in 1981. The bulk samples have been analysed by both independent laboratories and potential customers. Data from the underground workings and 54 drill holes have indicated in-situ reserves of 82 million tonnes.

At Picture Butte, a total of 74 holes, including 32 drilled during 1981, have indicated in-situ reserves of 90 million tonnes. Further delineation drilling in 1982 may be necessary to more fully assess the coal reserves associated with this property.



LETHBRIDGE AREA



J. H. H. Chamberlin,
Vice-President, Coal

MINE FEASIBILITY

Precambrian's recently established Coal Division is actively pursuing a plan that will enable management to determine the feasibility of developing a mine in the Picture Butte property by the end of 1982. Arrangements are

being formalized with our partner, Petro-Canada, to conduct a trial mining program in the Kipp mine to establish the most favourable methods of drivage and support of roadways which will economically allow for the development of the reserves and to determine the applicability of the "longwall" method of mining in the Galt Seam.

MARKET RESEARCH

The principal market area for this coal will be the "Pacific Rim" including Japan, South Korea, and Taiwan. Preliminary discussions have been held with a number of Japanese trading companies as a first step towards developing long-term relationships. Based on these discussions, the Company is encouraged regarding the existence of long-term markets for this coal.

FINANCIAL REVIEW

CORPORATE

Developments of a corporate nature have substantially contributed to the strong financial and exploration position of the Company at the end of calendar 1981.

Effective November 1, 1981, the Company purchased substantially all of the resource properties held by Union Gas Limited in Western Canada. The resource properties were valued at \$114 million and were purchased by the Company through the issuance of 14,901,961 common shares of Precambrian at \$7.65 per share. Consequently, Union Gas Limited holds approximately 61% of the issued common shares of the Company as at December 31, 1981.

As part of this purchase agreement, Union Gas Limited has also undertaken to provide an additional \$68.5 million in working capital to Precambrian over the next three years as described in the accompanying table:

During 1982, Union's contribution of \$23.5 million will be made through the acquisition of common shares. To date, \$16 million of 1982 contributions have been received. Starting with the April 1, 1983 payment, if the weighted average share price of the Precambrian common shares traded on The Toronto Stock Exchange during the 30 trading days ending 20 days prior to the payment date is less than the ascribed share value pertinent to such payment date then Union Gas Limited can elect to receive in lieu of such common shares either redeemable preferred shares of Precambrian or redeemable unsecured debentures of Precambrian.

If Union exercises such option to receive either preferred shares or debentures, the terms associated with either option are as follows:

Preferred Shares:

The preferred shares will be retractable at Union's option at the end of the fifth, tenth and

fifteenth anniversary of their issue and will be redeemable by Precambrian without premium at any time.

Debentures:

The term of the debentures will be seven years with 5% of the principal to be repaid on the fourth, fifth and sixth anniversaries of the issue date followed by repayment of the balance of 85% on the seventh anniversary. The debentures will be unsecured and will be redeemable by Precambrian without premium at any time.

The preferred share dividend rate or the debenture interest rate will be that determined by two Canadian investment dealers which would normally be paid by an "A" bond rated borrower in similar circumstances.

This agreement with Union Gas Limited will consolidate all of Union's interests in western Canadian resource properties into a majority equity ownership in an active North American energy company. The combination of cash flow from existing reserves together with subsequent working capital additions by Union provides a solid financial footing for Precambrian.

Amount of Working Capital to be Provided by Union Gas Limited	Date of Payment	Shares of Precambrian to be issued to Union Gas Limited	Ascribed Value Per Precambrian Share
\$ 8.5 million	January 1, 1982	1,111,111	\$ 7.65
7.5 million	April 1, 1982	937,500	8.00
7.5 million	October 1, 1982	882,353	8.50
10.0 million	April 1, 1983	1,000,000	10.00
10.0 million	October 1, 1983	1,000,000	10.00
12.5 million	April 1, 1984	1,041,667	12.00
<u>\$12.5 million</u>	October 1, 1984	<u>1,041,667</u>	<u>\$12.00</u>
<u>\$68.5 million</u>		<u>7,014,298</u>	

Earlier in the year, on January 23, 1981, the Company secured \$15,000,000 of long-term financing through the private placement of 9% Convertible Subordinated Debentures due January 22, 1991. Accompanying the Debenture, are Warrants to purchase 1,585,000 common shares.

During 1981, the Company elected to change the year end to December 31 from November 30. This change will facilitate administrative efficiencies resulting from the coordination of our joint ventures and budgets. This will also allow a coincidence with the quarterly reporting by Union Gas Limited. For 1981, we have reported a thirteen month period.

REVENUES

Oil and gas revenues increased by 441% to \$2,392,000 from \$442,000 for the prior year. This increase resulted from higher prices and higher production from both existing properties and new production attributable to the Union purchase. Management fees totalled \$1,084,000, compared to \$297,000 recorded during 1980. The increase was mainly the result of increased joint venture programs. Interest and other income increased by 392% to \$2,065,000 as a result of reinvesting a large part of our debenture issue proceeds until required to fund our capital program.

COSTS AND EXPENSES

Oil and gas production expenses totalled \$645,000, a 586% increase over 1980. This increase resulted from a greater scope of operations which included production from the Union purchase. General administrative costs increased by 111% to \$575,000, as a result of increases in administrative staff and related costs. Long-term interest expense totalled \$1,268,000 as a result of our debenture issue in early 1981. During the prior period, no long-term debt existed on the balance sheet. Short-term interest expense decreased by 48% as a result of lower short-term borrowing in Canada. In the United States, our subsidiary is considered to be in a start-up development stage and short-term interest of \$378,000 has been capitalized. In the near term, this subsidiary is expected to mature beyond the start-up stage and this capitalization policy will then be reviewed.

DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion and depreciation expense totalled \$467,000, a 325% increase over the 1980 figure. The revenue depletion method was used for intangible and tangible costs relating to exploration and development for oil and gas reserves. During 1981, the Company's amortization of debenture financing costs totalled \$40,000. Deferred mineral

exploration costs of \$16,000 were written off during the period and were significantly lower than 1980.

INCOME TAXES

Current tax recoveries of \$104,000 are 154% higher than 1980. This recovery is the net difference between the Alberta Royalty Tax Credit and the Federal Government PGRT Taxes. Deferred taxes increased substantially during 1981 mainly as a result of the Union purchase which involved assets with a nominal tax value.

NET INCOME AND CASH FLOW FROM OPERATIONS

Net income totalled \$1,171,000 for 1981, as compared to \$220,000 during 1980, a 432% increase. Cash flow from operations was \$3,077,000, a 351% increase over the \$683,000 recorded during 1980. The working capital of the Company was \$6,256,000 at December 31, 1981, a \$4,070,000 increase from November 30, 1980.

CAPITAL EXPENDITURES

Capital expenditures totalled \$127,593,000 compared to \$5,150,000 for 1980. Of the total this year \$114,000,000 was used for the purchase of the Union Gas Limited petroleum and coal properties. During 1982, capital expenditures are budgeted at \$30,000,000 with equity financing from Union and increasing cash flows providing the funds for this capital program.

CONSOLIDATED STATEMENTS OF EARNINGS

	Thirteen Months Ended December 31, 1981	Twelve Months Ended November 30, 1980
REVENUES		
Oil and gas production	\$2,392,000	\$ 442,000
Management fees	1,084,000	297,000
Interest and other income	2,065,000	420,000
	<u>5,541,000</u>	<u>1,159,000</u>
EXPENSES		
Production	645,000	94,000
General administration	575,000	272,000
Interest — short-term debt	79,000	151,000
long-term debt	1,268,000	—
Depletion and depreciation	467,000	110,000
Deferred mineral exploration costs written off	16,000	147,000
Other	26,000	13,000
	<u>3,076,000</u>	<u>787,000</u>
	<u>2,465,000</u>	<u>372,000</u>
INCOME AND OTHER TAXES		
Petroleum Gas Revenue Tax	112,000	—
Deferred	1,398,000	193,000
Alberta Royalty Tax Credit	(216,000)	(41,000)
	<u>1,294,000</u>	<u>152,000</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	<u>1,171,000</u>	<u>220,000</u>
Adjustment to deferred income taxes arising from tax benefits not previously recorded	—	112,000
NET EARNINGS	<u>\$1,171,000</u>	<u>\$ 332,000</u>
BASIC EARNINGS PER SHARE		
Before extraordinary item	<u>\$0.10</u>	<u>\$0.02</u>
After extraordinary item	\$0.10	\$0.04

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Thirteen Months Ended December 31, 1981	Twelve Months Ended November 30, 1980
RETAINED EARNINGS (DEFICIT) at beginning of period	\$ 314,000	\$ (18,000)
NET EARNINGS	<u>1,171,000</u>	<u>332,000</u>
RETAINED EARNINGS at end of period	<u>\$1,485,000</u>	<u>\$ 314,000</u>

(see Notes to Consolidated Financial Statements)

December 31, 1981

November 30, 1980

ASSETS

CURRENT ASSETS

Cash and short-term deposits	\$ 12,544,000	\$ 2,855,000
Accounts receivable	7,461,000	1,571,000
Other	183,000	81,000
	<u>20,188,000</u>	<u>4,507,000</u>

PROPERTY, PLANT AND EQUIPMENT (Note 2)	<u>138,283,000</u>	<u>11,173,000</u>
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OTHER ASSETS	<u>593,000</u>	<u>189,000</u>
	<u>\$159,064,000</u>	<u>\$15,869,000</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank loans (Note 5)	\$ 5,701,000	\$ 358,000
Accounts payable and accrued liabilities	6,458,000	1,213,000
Joint venture advances (Note 6)	1,773,000	750,000
	<u>13,932,000</u>	<u>2,321,000</u>

DEBENTURES PAYABLE (Note 4)	<u>15,000,000</u>	<u>—</u>
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DEFERRED INCOME TAXES	<u>1,377,000</u>	<u>81,000</u>
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DEFERRED REVENUE	<u>38,000</u>	<u>23,000</u>
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SHAREHOLDERS' EQUITY

Share capital (Note 3)	127,232,000	13,130,000
Retained earnings	1,485,000	314,000
	<u>128,717,000</u>	<u>13,444,000</u>
	<u>\$159,064,000</u>	<u>\$15,869,000</u>

Approved by the Board:

Director

Carl E. Curry

Director

J. A. Jenner

(see Notes to Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

**PRECAMBRIAN SHIELD
RESOURCES LIMITED**

	Thirteen Months Ended December 31, 1981	Twelve Months Ended November 30, 1980
SOURCE OF FUNDS		
Earnings before extraordinary item	\$ 1,171,000	\$ 220,000
Charges to earnings not involving funds:		
Depreciation and depletion	467,000	110,000
Deferred mineral exploration costs written off	16,000	147,000
Deferred income taxes	1,398,000	193,000
Other	25,000	13,000
Funds generated from operations	3,077,000	683,000
Issue of share capital	114,000,000	6,291,000
Deferred revenue	15,000	—
Issue of debentures	15,000,000	—
Tax benefit of share issue cost	102,000	—
	<u>132,194,000</u>	<u>6,974,000</u>
USE OF FUNDS		
Expenditures for property, plant and equipment	127,593,000	5,150,000
Other	531,000	—
	<u>128,124,000</u>	<u>5,150,000</u>
INCREASE IN WORKING CAPITAL	<u>\$ 4,070,000</u>	<u>\$ 1,824,000</u>
WORKING CAPITAL CHANGES		
Cash and short-term deposits	\$ 9,689,000	\$ 1,670,000
Accounts receivable	5,890,000	1,207,000
Other	102,000	1,000
Bank loans	(5,343,000)	(58,000)
Accounts payable and accrued liabilities	(5,245,000)	(246,000)
Joint venture advances	(1,023,000)	(750,000)
INCREASE IN WORKING CAPITAL	<u>\$ 4,070,000</u>	<u>\$ 1,824,000</u>

(see Notes to Consolidated Financial Statements)

AUDITORS' REPORT

To the Shareholders
Precambrian Shield Resources Limited

We have examined the consolidated balance sheet of Precambrian Shield Resources Limited as at December 31, 1981 and the consolidated statement of earnings, retained earnings and changes in financial position for the thirteen months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the preceding year were examined by other Chartered Accountants.

Calgary, Canada
March 16, 1982

CLARKSON GORDON
Chartered Accountants

1. SUMMARY OF ACCOUNTING POLICIES

All of the Company's operations are considered to be in the oil and gas industry. At the present time the United States operations are not of significant size to be classified as a reportable geographic segment. The financial statements have been prepared within the framework of the accounting policies summarized below:

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Precambrian Shield Resources Limited and its subsidiaries, all of which are wholly-owned.

(b) FOREIGN CURRENCY TRANSLATION

Accounts of foreign operations are stated in Canadian dollars. Current assets and liabilities are translated at year end rates of exchange. Income accounts and non-current assets and liabilities are generally translated at rates in effect when acquired or incurred. Gains or losses on translation of foreign currencies, though not material, are included in net earnings.

(c) PROPERTY, PLANT AND EQUIPMENT

The Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such amounts include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing properties, costs of drilling productive and non-productive wells and overhead expenses related to exploration and development activities. Costs are accumulated in a Canadian and a United States cost centre. The costs in the United States have been deferred until sufficient commercial reserves have been discovered at which time they will be depleted on the unit-of-production method.

(d) DEPLETION AND DEPRECIATION

As a result of changed circumstances arising from the introduction of the National Energy Program and the signing of the Energy Pricing and Taxation Agreements, the Company has concluded that, effective December 1, 1980, it is more appropriate to base provisions for depreciation of Canadian production equipment and depletion of oil and gas properties on production revenues rather than on production quantities. Accordingly, the depletion and depreciation charges on Canadian costs have been calculated as the proportion that current production revenues are to total estimated future revenues from proved reserves as determined from engineering reports by independent appraisers and updated by Company engineers. These estimated future revenues are based on prices contained in the agreements reached between the Federal Government and the producing provinces. As a result, the provision for depletion and depreciation for the period ended December 31, 1981 is \$226,000 less than it would have been had the calculation been based on the unit-of-production method.

(e) PETROLEUM INCENTIVE PROGRAMS

Cash grants earned under the Petroleum Incentive Program are accrued and applied against the related expenditures.

(f) OTHER INTERESTS

All expenditures on mineral claims and related exploration and development costs are deferred. The costs are written off when a project is determined to have no economic viability or on the basis of economic units of recoverable reserves if economic viability exists.

(g) OTHER EQUIPMENT

Other equipment is stated at cost and depreciation is provided on the straight-line basis at rates varying from 10% to 15%.

2. PROPERTY, PLANT AND EQUIPMENT

	December 31, 1981			November 30, 1980		
	Cost	Accumulated Depreciation and Depletion	Net	Cost	Accumulated Depreciation and Depletion	Net
Petroleum, natural gas, production and plant equipment	\$135,348,000	\$659,000	\$134,689,000	\$10,905,000	\$209,000	\$10,696,000
Mineral exploration costs	3,385,000	—	3,385,000	398,000	—	398,000
Other equipment	239,000	30,000	209,000	89,000	10,000	79,000
	<u>\$138,972,000</u>	<u>\$689,000</u>	<u>\$138,283,000</u>	<u>\$11,392,000</u>	<u>\$219,000</u>	<u>\$11,173,000</u>

During the period the Company recorded approximately \$1,500,000 in its accounts in accordance with the Petroleum Incentive Program.

3. SHARE CAPITAL

(a) During the period the Company changed its jurisdiction of incorporation from the Province of British Columbia to the Province of Alberta. In addition, the Company's authorized share capital was changed from 10,000,000 common shares without nominal or par value to 37,500,000 common shares without nominal or par value and 10,000,000 redeemable preferred shares with a par value of \$10 per share (none issued).

(b) COMMON SHARES

	December 31, 1981		November 30, 1980	
	Number of Shares	Consideration	Number of Shares	Consideration
Balance, beginning of period	9,464,421	\$ 13,130,000	8,023,921	\$ 6,839,000
Shares issued	14,901,961	114,000,000	1,440,500	6,291,000
Tax benefit of share issue costs realized during the current period		102,000		
Balance, end of period	<u>24,366,382</u>	<u>\$127,232,000</u>	<u>9,464,421</u>	<u>\$13,130,000</u>

On November 1, 1981, the Company issued 14,901,961 common shares to Union Gas Limited for oil, gas and coal properties valued at \$114,000,000 by the directors of the Company, based on engineering reports prepared by independent appraisers and updated by Company engineers. This transaction was structured in accordance with provisions of the Income Tax Act (Canada) resulting in a nominal cost of the properties for tax purposes.

During 1980 the Company issued 1,440,500 common shares in exchange for a net consideration of \$6,291,000. Of this total, \$5,000,100 was expended on oil and gas exploration and development where the investors have retained the expenditures for income tax purposes.

(c) KEY EMPLOYEE STOCK OPTION PLAN

The Company has reserved 1,400,000 common shares for issue under the terms of a Stock Option Plan enabling certain officers and employees to purchase shares of the Company at the market price on the date the option is granted. The Plan provides for the exercise of one-fifth of the options per year cumulatively over a five year period. At December 31, 1981 options were outstanding on 889,000 shares (1980 — 430,000) at prices ranging from \$2.85 to \$6.41 per share.

(d) **WARRANTS**

In connection with an issue of debentures (see Note 4) the Company issued 1,585,000 share purchase warrants which entitle the holder to purchase an equal number of common shares. The purchase price has been adjusted, as a result of a subsequent common share issue, to \$7.98 per share until January 22, 1983 and approximately \$10.00 until January 22, 1985 at which time the warrants expire.

(e) **COMMITMENT**

The Company has agreed to issue to Union Gas Limited (Union) the following common shares:

<u>Year</u>	<u>Number of Shares</u>	<u>Consideration</u>
1982	2,930,964	\$23,500,000
1983	2,000,000	20,000,000
1984	2,083,334	25,000,000
	<u>7,014,298</u>	<u>\$68,500,000</u>

Should certain market conditions be met in 1983 and 1984 Union can elect to receive either redeemable preferred shares or redeemable unsecured debentures at rates to be determined at the time of issue.

4. DEBENTURES PAYABLE

On January 23, 1981 the Company issued \$15,000,000 9% Convertible Subordinated Unsecured Debentures with a maturity date of January 22, 1991. The debentures are convertible at any time, at the option of the holder, into common shares at an adjusted conversion price of \$7.98 per share. Commencing January 23, 1984, the Company must offer to purchase for cancellation a minimum principal amount of \$900,000 annually. In addition the debentures are not redeemable prior to January 23, 1984 at which time they are redeemable, at the Company's option, at 105% of par to January 23, 1985, declining by 1% annually to January 23, 1989 and par thereafter (should certain market conditions be met the debentures are not redeemable during the period January 22, 1984 to January 22, 1986).

5. BANK LOANS

The bank loans are secured by certain investments and an agreement to provide, upon request, a letter of undertaking to pledge the proven reserves.

6. JOINT VENTURE ADVANCES

Advances from joint venture partners are included in the cash and short-term deposits of the Company and interest earned thereon is for the account of the joint venture partners.

7. REMUNERATION

Remuneration of directors and senior officers of the Company amounted to \$317,000 (1980 — \$241,000).

8. FISCAL YEAR END

During 1981, the fiscal year end was changed from November 30 to December 31.

**PRECAMBRIAN SHIELD
RESOURCES LIMITED**

Continued under the laws of the Province of Alberta

**CORPORATE
INFORMATION**

Officers

Earl E. Curry

Chairman of the Board

Theodore H. Renner

President and Chief
Executive Officer

George R. D. Goulet

Secretary

Andre Rynsburger

Vice-President and
General Manager

Lynn W. Lebbert

Vice-President, Land and
Assistant Secretary

Paul H. King

Vice-President, Finance

Peter B. Boulanger

Vice-President, Engineering
and Operations

J. H. H. Chamberlin

Vice-President, Coal

Gordon R. Travis

Controller

Senior Personnel

Ken Thrasher

Manager, Geophysics

Auditors

Clarkson Gordon

**Registrar and
Transfer Agent**

Guaranty Trust
Company of Canada
Calgary - Toronto

Bankers

Bank of Nova Scotia

Legal Counsel

McLaws & Company

Listing

The Toronto Stock Exchange

Corporate Office

12th Floor
The Bradie Building
630 - 6th Avenue S.W.,
Calgary, Alberta
T2P 0S8
(403) 237-7363

Wholly-Owned Subsidiary

Shield Resources Inc.

Suite 400

3050 South Post Oak Boulevard

Houston, Texas 77056

(713) 622-0952

C.P. Bragg

Senior Vice-President and General
Manager

Al Owings

Vice-President, Engineering
and Operations

Alton D. Holmes

Land Manager

Ray Doan

Manager, Geophysics

Bankers

First City National Bank
of Houston

